STOCKS AND THEIR FEATURES—A DIVISION AND CLASSIFICATION

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In the following article stock certificates will be classified (1) according to their par value, (2) according to the conditions regarding their issue (*i. e.*, whether the stock is full-paid or assessable), and (3) according to the rights and limitations attaching to common and preferred stocks. Following this threefold classification the article will next discuss debenture stocks and those stock certificates which are analogous to preferred. Emphasis will be given only to such stocks as are listed on some stock exchange in the United States, though at times it will be necessary to touch upon shares traded in elsewhere.

In the first place stock certificates may be classified according to their par value. The great majority of important railroad, industrial and financial corporations have issued stock with a par value of $100; at the same time, however, some of the best railroad stocks in the country, such as the Pennsylvania Railroad, Reading, Delaware, Lackawanna & Western, and Lehigh Valley, have a par value of only $50. Among the largest industrial concerns with shares of only $50 par may be mentioned the Westinghouse Electric Company, the United Gas Improvement Company, Lehigh Coal and Navigation, Pittsburg Brewing, and Cambria Steel. It will be noticed that these companies are mainly incorporated in the State of Pennsylvania, and it may be said that the $50 share for railroads and industrials is largely local to the Keystone State. Examples of large companies with a stock of this par value incorporated elsewhere are extremely few. The shares of two or three unimportant railways have a par value of $25, but that figure is found primarily in the issues of Boston "coppers," such as Anaconda, Calumet and Hecla, Old Dominion, Osceola, Quincy, Tamarack, Wolverine, etc. Generally speaking, these are stocks of proved value, since their average price is many times the figure stamped on the face of their

certificates. In the mining field we also find a large number of lower par values, *i. e.,* in multiples of five dollars and even one dollar a share or lower. In most instances, however, these shares represent mining concerns which are traded in on the "curb" markets or on the exchanges of San Francisco, Salt Lake City or Colorado Springs.

According to the laws of most states any par value whatever may be fixed for the stock. Consequently there are par values all the way from one cent, in certain mining and oil-well properties, to a few banks and trust companies, such as the Humboldt Savings Bank, and the Union Trust Company of San Francisco, and the West Side Bank of Milwaukee, each with shares of a par value as high as $1,000. The New Jersey corporation laws, under whose fostering influence most large industrials have been incorporated, provide that any par value whatever may be chosen; but it must be emphasized that the vast majority of stock issues of sufficient importance to be listed on a large exchange have a par value of $100. It is also practically the universal rule for corporations to have the same par for all classes of its stock where there is more than one issue. Only one exception has been found to this rule, the Northern Commercial Company, which has $1,622,800 of common stock with a par of $100, and $1,620,000 preferred stock of a par value of only five dollars. If every share casts one vote, the reason for the difference may be inferred.

Some stocks, strange as it may seem, have no par value whatever. Thus, the Great Northern ore properties constitute a trust created in 1906, consisting of 1,500,000 "trustees' certificates of beneficial interest," one of which was given to every share of the Great Northern Railway Company when the mineral lands of that corporation were segregated. The Adams Express Company, a voluntary association, dating from 1854, likewise has 120,000 shares of no stipulated par value, paying dividends of eight dollars per share annually. Similarly, the East Boston Company, a Massachusetts corporation going back to 1833, has 150,000 shares of no par value; and among other companies which have adopted this plan several might be mentioned which to all intents and purposes have given their stock a par value of $100, though a "share" of no par value whatever is employed; *i. e.,* the Boston and Worcester Electric Companies and the Boston Suburban Electric, each with

preferred stock entitled to four dollars a year cumulative dividends and $100 in case of dissolution.

This Massachusetts idea, if we may so term it, was also applied in the reorganization plans of the Chicago Railways Company. The capital stock of this company is $100,000, which is used as a basis for 265,000 "participation certificates" of four series: The first of 30,800 "parts," the second of 124,300 parts, the third of 60,000, and the fourth of 50,000. The first three are entitled, in order, to eight dollars cumulative dividends, and to $100 on dissolution. The fourth series gets the surplus dividends and capital. The stocks of these companies thus really have a par value of $100 under a different name—using dollars for dividends instead of percentages, and allowing the preferred $100 on dissolution. The reason for this policy may be found in the fact that shareholders cannot be held liable up to the "par value" for corporation debts, as is the case in some states; and again when the capital consists of "parts" of no par value there may exist a good superficial answer to the charge of "stock watering."

A further classification of stock certificates can be made with reference to their issue; *i. e.,* into issued and outstanding, unissued, and treasury stock. Unissued stock is that which has been authorized but not yet disposed of. It merely represents the right to admit new stockholders and has no value in itself. It has no active stock rights and is not an asset of the corporation. It usually is reserved for various corporate purposes, such as the conversion of bonds or the purchase of new lines or plants. Treasury stock, on the other hand, is best described by Wood in words which have been frequently quoted: It is stock "issued and outstanding which has come into the possession of the corporation which issued it by purchase, donation, or in liquidation of a debt. If it has been issued full-paid it remains so, even if sold again below par, and it is considered an asset of the corporation for bookkeeping purposes. But such stock, so long as it is held by the corporation or its representatives as treasury stock, neither participates in dividends nor in the meetings of the corporation as treasury stock; though it still represents a paid-for interest in the property of the corporation." Treasury stock is issued, but is evidently not outstanding. Examples most frequently occur in mining companies, though there the term is usually misapplied, being used to describe unissued stock

in the company's treasury. Among industrials holding a considerable amount of treasury stock may be mentioned the United States Cast Iron Pipe and Foundry Company, the Pacific Coast Company, the American Beet Sugar Company, and the Pittsburg Brewing Company.

Stocks can also be classified according to whether they are full-paid or assessable. Full-paid stock is simply that which has been fully paid for as required by law in money, property or labor. The certificates of such stocks are issued stamped "full-paid and non-assessable," and, in the absence of any special statute on the subject, carry with them no legal liability. Assessable stock, on the other hand, is that which has not been fully paid for by its subscriber. Just as Boston is the home of many mining shares with a par value of $25, so it is also the market for many assessable shares. Calumet and Hecla stock has paid in only $12 on a par value of $25; Franklin, $10.20; Tamarack, $13; Allouez, $22.25; Wolverine, $13, etc. Similarly, in the Metropolitan Securities Company, one of the constituent corporations of the Interborough-Metropolitan Company, only $75 has been paid in on a par of $100; the Philadelphia Electric Company, only $15 on a par value of $25; the Union Traction Company of Philadelphia, only $17.50, though it is now receiving a guaranteed dividend of 6 per cent. on its $50 par value. It should be emphasized, however, that outside of mining and public utilities corporations, assessable shares are comparatively few. Very few instances of such stock are listed on the New York Stock Exchange. The legal status of assessable stock is such that creditors of the corporation can hold the owners of the shares liable for the difference between the amount actually paid in and the par value of the stock.

Turning next to a discussion of the various features of common and preferred stock, we find that the classification, to be complete, must be very elaborate. An outline is inserted on page 47 to enable the reader to follow more readily the following classification.

"Common stock," meaning the junior issue, when there is preferred stock, or stock analogous to preferred, sometimes has a real preference in regard to voting, for there are instances where the preferred gives up the right to vote as a consideration for its receiving regular dividends. The usual provision is that if such disbursements are discontinued for a certain period, varying with the indi-

vidual corporation, the preferred stock shall resume its voting power. Leading corporations in which the common stock has exclusive voting power, under the foregoing conditions, are American Smelters Securities, American Tobacco, Interborough-Metropolitan, Royal Baking Powder, and United Cigar Manufacturers' Company. All of them, with the exception of the Interborough-Metropolitan Company, have maintained regular dividends; the latter defaulted in its obligations toward its preferred stock in 1907, so that at the present time this issue has full voting rights.

CLASSIFICATIONS OF STOCK CERTIFICATES ACCORDING TO THE RIGHTS AND LIMITATIONS ATTACHING TO VARIOUS TYPES OF STOCKS.

1. Common.
2. Deferred.
3. Preferred, as to
   - Dividends (always)
     - Cumulative (industrials, generally).
     - Non-cumulative (railroads, generally).
   - Assets
     - Railroads (not often).
     - Industrials (generally).
   - Voting power
     - Exclusive (seldom).
     - Special (often).
   - Other features
     - Callable.
     - Convertible.
     - Participating.
4. Stocks analogous to Preferred
   - Interest-bearing.
   - Special stock.
   - Guaranteed.
   - Founders'.
5. Debenture.

Common stock generally has the right to receive all the surplus remaining for dividends after the preferred has been paid its stipulated percentage; and in a growing country such as the United States this feature is valuable, provided there is any worth in the company. The Union Pacific Railroad common receives 10 per cent., but the preferred is forever limited to 4 per cent. The American Tobacco Company began with a regular 6 per cent. dividend on the preferred and 20 per cent. on the common, but increased the amount paid

on the common almost annually, until now it stands at 35 per cent. These two companies are exceptional, but there are scores of well-known corporations, such as Atchison, American Light and Traction, American Radiator, American Snuff, H. B. Claflin Company, Eastman Kodak, and Philadelphia Company, to name only a few, where the common receives more, and frequently a great deal more, than the preferred. It is to be noted, however, that in some cases the preferred participates in the surplus left after dividends of a certain percentage on the common have been paid. This class of preferred stock, and its relation to the junior issues, will be treated later in its appropriate place. It is evidently not an advantage to the common stock to have such preferred stock ahead of it.

Common stock usually has the right to share equally with the preferred in the corporate assets on the dissolution of the company. In many cases, however, especially the New Jersey industrials, which include practically all the large "trusts," the preferred stock has a preference in this respect. It is evident that in corporations where the common stock receives a large dividend, as those named in the preceding paragraph, that on the distribution of the property producing such a revenue the common would receive more than the preferred. Conversely, if the company were weak, and especially if preferred dividends were in default, it is easily conceivable that the common would receive little or nothing, as in the latter case all back cumulative dividends are generally treated as an additional part of the preferred capitalization.

"Deferred" stock is an issue commonly used in England, but only infrequently met with in the United States. The name itself is largely explanatory of its nature. It is an issue on which dividends are deferred until dividends on some other variety of stock, or interest on some particular bonds, have been paid. The common stock of companies possessing this issue is usually divided into two parts—one, the "B," or ordinary stock, and the deferred, or "A" stock, which receives no dividends until a certain fixed rate has been paid upon the "B" stock. Both of these issues are junior, of course, to the "preference stock," as it is called in England. The corporations which possess this class of stocks are usually English either in their inception, location or management. In this country we may mention Arizona Copper, and the Alabama, New Orleans, Texas & Pacific Junction Railways, Limited, as examples. The

old Alabama Great Southern Railroad, which was merged into an American company of the same name in 1906, and the National Railroad of Mexico, merged with the Mexican Central in 1908 into the National Railways Company of Mexico, both possessed this feature. None of these issues, however, has ever been of importance on the stock exchange.

Having explained the nature of deferred stock, we may now consider *preferred* stock. This class may have a preference in any one, any two, or all three, of three particulars; *i. e.*, dividends, always; assets, generally, and voting power, at times. It may also be "callable," "convertible," or "participating."

Such stock always has a preference over the common as regards dividends, which may be either "cumulative," or "non-cumulative," the former being in the nature of a fixed charge, because if the corporation is unable to pay the dividend in one year, it must be paid in succeeding years, together with the dividends for those years, before the common can receive anything. No such duty attaches to non-cumulative stock. If the dividend cannot be paid this year, the rights of the common to share in next year's earnings are in nowise impaired. "Railroads are non-cumulative, industrials generally cumulative," so runs the rough-and-ready distinction. It is hardly exact, since, as the following table shows, there are numerous railroads that have a cumulative dividend feature in their preferred stock issue:

Name.	Amount of Preferred Stock Outstanding.	Cumulative Rate.	Remarks.
Allegheny Valley	$17,174,000	3%	Mostly exchanged for Pennsylvania R. R. stock.
Central Pacific	13,600,000	4%	
Chicago & Alton	879,300	4%	"Prior lien and participating stock."
Cincinnati, New Orleans & Texas Pacific	2,453,400	5%	
Rutland	9,057,600	7%	About 180% in arrears.

It is of importance to notice that of late it seems customary in railroad reorganizations to insert a cumulative clause for the preferred stock in the new charter. But dividends do not become cumulative for a few years, in order to give the road an opportunity to

become firmly established before it must meet the fixed cumulative dividend obligation. Pere Marquette first preferred stock, to the extent of over eleven millions, becomes a 4 per cent. cumulative issue after June, 1911; Chicago, Great Western preferred, over forty-one millions, is to be 4 per cent. cumulative after June, 1914; the Seaboard Company, the holding corporation for the Seaboard Air Line, is to give 5 per cent. cumulative dividends, after July, 1910, on its issue of over six millions of first preferred. In fact, there is over $150,000,000 of preferred railway capital that is now, or soon will be, receiving cumulative dividends. But this amount, large as it may seem, is relatively small, compared with the total of more than $1,500,000,000 of preferred stock of American railroads outstanding.

The general rule referred to a moment ago is correct in stating that industrial preferred stock issues are generally cumulative, since about two-thirds of them contain this feature. Among the important corporations that have *not* included this cumulative feature may be mentioned: American Car and Foundry, American Linseed, the Pacific Coast Company issues, Pressed Steel Car, Sloss-Sheffield, and United States Rubber, first and second preferred. These companies, however, are not important relatively in their aggregate capital when compared with American Smelting, American Sugar, American Tobacco, United States Steel, and other large issues, which contain the cumulative feature. The non-cumulative preferred shares among industrials generally represent corporations not of the first rank. The large companies—the "trusts"—had to make their preferred stock attractive to investors by adding the cumulative feature when they came to market their securities in the great era of trust promotion.

Under the subject of common stocks, the preference as to assets on dissolution which the preferred often enjoys was spoken of. This feature is quite general, as was there stated, among industrials, but not common in the case of railroads. The following important railway systems, however, have incorporated this feature in their charters: Atchison, Chicago & Alton, Chicago Great Western, Hocking Valley, National Railways of Mexico, first and second preferred in order; Norfolk & Western, Pere Marquette, Rock Island, and Seaboard Company. In this list will be noted the three recently reorganized corporations which have cumulative dividends. Evi-

dently it is becoming customary to give the preferred stock of new railways as many benefits as possible. In the case of industrials it is advisable to reverse the classification, as was done under dividends, and name only those stocks which are *not* preferred as to assets, viz.: American Sugar, Philadelphia Company, Pittsburg Coal, and United Railways of St. Louis. Practically every large industrial concern has its preferred stock protected by giving it this preference should it ever become necessary to distribute the corporate assets. This, of course, will generally be an advantage, but in the case of very strong companies it may not be, as has already been pointed out. To obviate this a few concerns, all unimportant, have provisions like the Merchants Warehouse Company, to the effect that the preferred stock has the first claim on all assets up to $100 a share, and then shares the balance with the common after that issue has received $150 a share. As stated before, according to the laws of the State of New Jersey, under which most of the large industrials have incorporated, preferred stockholders are to receive preference in the distribution of corporate assets on dissolution, up to par, the balance going to the common stock (Act of 1896, sec. 86, ch. 185). In a few instances the preferred stock has a preference to an amount over par. Dominion Coal, for example, is preferred up to $115 a share. Electric Storage Battery, on the other hand, is only preferred up to $10 a share, although the par value is $50. In most cases, too, unpaid cumulative dividends must be settled for out of assets before the common stock can receive anything.

The superior voting right which the common stock sometimes possesses has already been spoken of. The preferred, likewise, in some instances, carries the entire voting power, though not so often as the common, and generally in less important corporations. The Rock Island Company is the only example of first rank where the preferred stock has exclusive voting power. This fact was instrumental in the stock exchange investigation of the sensational rise in the common stock on December 27, 1909, and its equally sudden decline, for it conclusively negatived the idea of a "fight for control," and stamped the movement as purely manipulative. On the other hand, the preferred stock often has a voting preference in regard to special matters—usually in case of the creation or increase of funded debt, or the enlargement of the preferred issue

itself. More than a majority of the issue, usually two-thirds to three-fourths, is required to sanction such changes. The following preferred stock issues, among others, may be cited as possessing such features: Atchison, National Railways of Mexico, Norfolk & Western, Reading, both first and second preferred, Southern, American Can, American Snuff, Central Leather, Interborough-Metropolitan, Sears-Roebuck & Co., United Cigar Manufacturers, etc. As a general rule, such provisions are not of great practical value.

Mention may be made here of the various classes of preferred stock, and the safeguard that is occasionally thrown around preferred dividends in the shape of what may be called "dividend funds." The difference between a first and second preferred stock is this: that while both are senior to the common, the first preferred ranks ahead of the second in regard to receiving dividends, and in some cases has priority as regards assets, also. Of the corporations whose stocks are active on the New York Exchange only about 5 per cent. possess two or more classes of preferred. Space will not permit the giving of a complete list of corporations having more than one issue of preferred stock. A few important corporations, however, should be mentioned as belonging to this class: Colorado & Southern, Erie, National Railways of Mexico, New York, Chicago & St. Louis, Pere Marquette, Reading, Seaboard Company, St. Louis & San Francisco, Wheeling & Lake Erie, American Smelters' Securities, Associated Merchants, H. B. Claflin Company, Chicago Railways, Pacific Coast, and United States Rubber. All of these corporations have two classes of preferred stock, except the Chicago Railways Company, which has three, as has also Concord & Montreal. No instance of a corporation having more than three classes of preferred stock has been found.

A few corporations have made provision for the accumulation of a certain fund out of which dividends on the preferred shall be paid during times of business depression, when earnings are not sufficient to meet such payments. The National Railways Company of Mexico affords an example. To insure semi-annual payments of 1 per cent. on the first preferred for three years from January 1, 1908, a separate fund of $1,800,000 of prior lien bonds and $1,200,000 of guaranteed general bonds was set aside, and these or their proceeds may be drawn upon to the extent that net profits

shall not be sufficient to make such payments. A similar provision attaches to the preferred stock of United Factories, Limited. United Cigar Manufacturers, and Sears-Roebuck & Co. have requirements that a surplus of $1,000,000, in each case, shall be accumulated before any dividend shall be paid on the common. This, of course, serves as a protection to the preferred stockholders, for if there were no such surplus when net earnings were little above the amount needed for preferred dividends, it might not be deemed advisable to declare such dividends, unless there were such a surplus fund to fall back upon for working capital. But, as said before, such provisions are infrequent.

It is proper to state here that what is commonly known as "preferred" stock need not necessarily, in many cases, be called by that name at all. Under the laws of many states, stock possessing the characteristics of preferred stock may be known by almost any name, so long as that name does not generally import some other variety of stock. Concord & Montreal has its stock divided into classes I, II, III and IV, class IV corresponding to common stock. In this case, however, the distinction is of very little practical account, because all four classes are guaranteed 7 per cent. dividends by the Boston & Maine Railroad. With the Chicago Railways Company, however, it is different, since its "participation certificates," series I, II and III, as explained previously, are really preferred, while series IV is common. At any rate, the immense majority of corporations call their preferred stock simply "preferred."

It should next be noted that preferred stocks may possess any one of three special features—they may be "callable," "convertible" or "participating." Very many preferred stocks are issued to procure money for corporate purposes on the inception of the company, when not much could be realized by the sale of common stock, and bonds could be marketed only at a discount. Such companies may have hopes that in time their business will so improve that by issuing bonds at a low interest rate, or by selling additional common stock, they can retire the preferred stock, leaving the common stock in a much better position. Hence the callable feature may be inserted. This is never obligatory on the corporation, but merely optional with the directors. It is the opposite of the "convertible" feature, which depends on the stockholders'

option. The following is a table of callable preferred stocks, showing their provisions as to the time of redemption, and the calling price. If no time is specified, the company's option is understood.

TABLE OF CALLABLE PREFERRED STOCKS.

Railroads.	Time.	Price.	Remarks.
Chicago Gr. Western		Par and div'nds	"If and when allowed by law."
Erie, 1st and 2d p'f'd		Par	
Hocking Valley		Par	
Reading, 1st p'f'd		Par	
Reading, 2d p'f'd		Par	"If and when allowed by law."
Seaboard Co., 1st p'f'd		Par	
Seaboard Co., 2d p'f'd	After 1912	110	"Provided 1st preferred has been redeemed or converted."
Industrials.			
American Cotton Oil		105	
Am. Cities Ry. and Light	On any dividend date	107½ and div'nds	
Am. Smelters, Secs. "B"	After 1930	Par	
Amer. Typefounders	On 30 days' notice	105	"Only by vote of two-thirds of directors."
Borden's Cond. Milk		110	"All, or any."
Consolidated Gas, of Baltimore		120 and div'nds	
Dominion Coal and Iron	After May 1, 1910	125 and div'nds	If not previously converted into common.
Dominion Iron and Steel	On 3 mo's' notice	115 and div'nds	Subject to conversion for 30 days after notice.
General Asphalt	On 90 days' notice	110	Subject to conversion during period of notice.
Michigan State Telephone	Feb. 1 of any year	Par and div'nds	
National Lead		Par	
Sears, Roebuck & Co.		125 and div'nds	"All, or any."
United Railways Investment		110 and div'nds	

A much larger list could be compiled, but it is better to present only typical or fairly large companies. The industrials are generally redeemable at a premium, and are hedged with definite provisions regarding the time at which the company may exercise its right. The railroads, on the contrary, are nearly always callable at par, and at any time the company may choose. It is generally considered a disadvantage to have a stock callable, as the holder must then seek new fields for his capital, usually just when the investment begins to look attractive. A company never calls stock when it is in difficulties; Tonopah, of Nevada, called its preferred just before it began dividend payments on the common; and Northern Pacific, which was called at par, January 1, 1902, had been paying dividends only a few years.

On the other hand, it is usually advantageous to possess a *convertible* stock. Here the option is with the stockholder, not with the company. The Reading Company's second preferred stock is an exception, being convertible into one-half first preferred and one-half common at par on vote of the directors. As the common is now selling about $30 above its par of $50, and the first preferred only a little below par, the convertible feature is valuable, and explains why the second preferred sells at a level considerably above the first. There is, however, a clause that is seldom reproduced in statistical works *i. e.* that the second is *callable* at par, "if and when allowed by law," which is apparently unknown, or if known, disregarded, by those who keep the second preferred at its present price level, in the hope that the directors will allow conversion. It reminds one of the story, probably untrue, that Mr. Harriman did not know, when he bought Northern Pacific preferred, that the stock could be called, before the directors took that action. Certain it is that their power so to do was never paraded before the public, and it lay, a secret to the "outsiders," in the recesses of the railroad's charter.

Among industrials, Allis-Chalmers preferred stock is convertible into common at par, but, of course, no one is doing so, as the common is selling around 12, and the preferred about 40. Associated Merchants first preferred stock is convertible into second preferred or common stock at par while the books are open; Dominion Coal preferred, into common at par before May 1, 1910; and Dominion Iron and Steel preferred into common at par, and at any time.

Electric Storage Battery allows conversion on the same terms as the Dominion Iron and Steel Company, and practically all of the preferred has been converted. The General Asphalt Company allows conversion on the basis of $150 common stock for $100 preferred; and the Hudson & Manhattan Railway, into common at 110, after July 1, 1911. The list is not so long as that of the callable preferred issues. Southern Pacific, on July 15, 1909, gave its preferred stockholders three options; $115 in cash, or $20 cash and $100 in 4½ per cent., twenty-year debenture bonds, or conversion into common, par for par. Practically all of the holders of the preferred issue availed themselves of the conversion privilege. The holders took a stock paying 1 per cent. less dividend than they formerly received, but the company has as large possibilities before it as Union Pacific did a few years ago, and they undoubtedly will be rewarded in the end, for they now have a "general" stock, which has the right to all earnings after interest charges have been met. The conversion feature as attached to bonds is old and much employed, but when connected with preferred stocks is comparatively recent, and has been criticised in court decisions.

The participating feature of certain preferred stocks is comparatively unknown to the public; yet it is of the utmost importance, for it is practically only in this class of preferred stocks that the holder has an income unlimited except by the company's earning power. In cumulative preferred stocks he is nearly always limited to his fixed percentage, but here he shares with the common stock the surplus remaining after a certain amount has been paid on that class. Following is a table showing the principal railroad and industrial companies that have included this feature, together with the terms of the participation:

TABLE OF PARTICIPATING PREFERRED STOCKS.

Railroads.	Preferred Receives.	Then Common Receives.	After Which.
Buffalo, Roch. & Pittsbg.	6%	6%	Both share pro rata.
C., M. & St. Paul	7%	7%	Both share pro rata.
Chicago & Northwestern	7%	7%	Preferred 3%, then common 3%, then share pro rata.
C., St. P., M. & O.	7%	7%	Both share pro rata.
Hocking Valley	4%	4%	Both share pro rata.
Iowa Central	5%	5%	Both share pro rata.

Railroads.	Preferred Receives.	Then Common Receives.	After Which.
Lake Erie & Western	6%	6%	Both share pro rata.
Minn. & St. Louis	5%	5%	Both share pro rata.
M., St. P. & S. S. M.	7%	7%	Both share pro rata.
N. Y. C. & St. L., 1st p'f'd.	5%	5%	Second preferred 5%, then *all* share.
Pittsburg, Clev., Cinn. & St. Louis	4%	3%	Preferred 5%, then common 5%, then share.
Wabash	7%	7%	Both share equally.
Wisconsin Central	4%	4%	Both share equally.
Industrials.			
Allis-Chalmers	7%	7%	Preferred receives 1% extra.
Associated Merchants, 1st and 2d preferred........	7%	7%	Both preferreds receive ½% for each 1% paid on common over 7 %.
Consolidated Traction	6%	6%	Both share equally.
Electric Storage Battery ..	1%	1%	Both share equally.
Pacific Coast, 2d preferred.	4%	4%	Both share equally.
Westinghouse Electric	7%	7%	Both share equally.

Among the railroads, Chicago & Northwestern preferred stock is now receiving 1 per cent. additional, and the same is true of the Pittsburg, Cincinnati, Chicago & St. Louis Railroad. In the industrials, Pacific Coast second preferred is now on a 5 per cent. basis with the common; Electric Storage Battery has 4 per cent. paid to it instead of 1 per cent.; Westinghouse Electric for four years before the panic of 1907, which threw it into the hands of a receiver, was paid 10 per cent., and is now paying its regular 7 per cent. In a few of these companies, such as Allis-Chalmers or Wabash, the participation feature is of little value, as there is small chance that earnings will ever permit of any payments at all on the common. However, most of the corporations, whose preferred stocks are not now participating with the common, are paying regular dividends on their senior issue, and there is a fair prospect that in time, as the country develops and grows richer, the earnings will so increase that the right to participate with the common in surplus earnings will be a valuable feature of the preferred. The same remarks apply to conversion, which may not be advisable now, but which, with the onward march of this "bull" country, as it has frequently

been termed, will in the future become a prized feature of stock that has been bought for the "long pull."

Following our classification of stocks we may now consider those stocks which are analogous to preferred. The first of these is interest-bearing stock which is really only another name for preferred stock. For interest (instead of dividends) must be paid upon it before there can be any disbursements on the common. Paradoxical as it may seem to the idea of a stock contrasted with that of a bond, the payment of interest may be enforced at law, as the subscription to the stock is regarded "as a contract in the nature of an agreement to pay a dividend, but is lawful only when it can be construed as requiring payment of such interest from profits alone." Such issues are obsolete to-day; no examples are found in the various manuals. There is no reason, however, why a corporation should not issue such stock, should it deem it advisable. From the records we have selected the following examples:

Detroit & Milwaukee, acquired by the Great Western of Canada, which in turn was absorbed by the Grand Trunk.

Cleveland & Toledo, leased to the Cleveland, Painesville & Ashtabula, which was consolidated with the Lake Shore.

Vermont & Massachusetts, leased to Boston & Maine.

Pittsburg & Connellsville, merged with the Baltimore & Ohio.

Pittsburg & Steubensville, acquired by the Steubensville & Indiana, which was taken over by the Pittsburg, Chicago & St. Louis, which was ultimately absorbed by the Pennsylvania Company.

Troy & Greenfield, acquired by the Troy & Boston, which was taken over by the Fitchburg, which in turn was leased to the Boston & Maine.

All of the above companies were comparatively small, and all have been absorbed by larger systems, generally leaving no trace of their stock. Consequently, the subject is of but little more than academic interest.

"Special stock" is a creation of certain Massachusetts statutes, especially the Acts of 1855 and 1882. Under the latter enactment, manufacturing "and other corporations," by vote of three-quarters of their stockholders at a meeting called especially for this purpose, may authorize "special stock," which must never exceed two-thirds of the actual capital, bearing semi-annual dividends not exceeding

4 per cent., and subject to redemption at par after a fixed date, which must be expressed on the certificate. The holder of such stock is in no case liable for the debts of the corporation. Instances of such stock crop out now and then because of lawsuits over the rights of their holders, but as these generally only occur after the insolvency of the corporation, they are of little use if we wish a present example. The Boston Machine Company had such stock, as did the Greenfield Tool Company, but both are defunct. The nearest modern analogy is a callable preferred stock, but it also resembles in some ways a short-term note, for the obligation to pay dividends is absolute, not, as in interest-bearing or ordinary preferred stock, contingent on there being sufficient profits so to do, and it is also usually redeemable in a short time.

"Guaranteed stock" is a term properly applied to the stock of a company, the dividends on which are guaranteed by another corporation, provided there are sufficient earnings to meet them, but not otherwise. It is sometimes erroneously employed as describing preferred stock, *i. e.*, the corporation guaranteeing the dividends on its own stock. Guaranteed stocks usually arise from a consolidation or lease of one road, or industrial corporation, with or to another, and are much more frequently found in the case of railroads than industrials. A full list of all the guaranteed stocks in the country would occupy pages, and thus only a few important examples are given:

Railroad	Guarantor.	Terms.
Catawissa	Reading	5% on stock, and $8,000.
Central of Vermont	Grand Trunk	Traffic guarantee.
Cleveland & Pittsburg	Penna.	7% on stock, and bond interest.
Concord & Montreal	B. & M.	7% on stock.
Delaware	P. W. & B. (Penna.)	Net earnings.
Fitchburg	B. & M.	5% on preferred, 1% on common, bond interest and expenses.
Old Colony	N. Y., N. H. & H.	7%, and stock convertible into New Haven.
Pittsburg, Ft. Wayne, etc.	Penna.	7% on stock, and on "special improvement," etc.

Among industrial corporations guarantees of stock are rare. American Smelters Securities, preferred "B," is the only example of

importance. They are generally confined to public service corporations. Most guarantees are successful—the guarantor maintaining the dividends promised. Some are not, but there are few as bad as the lease of the Pere Marquette to the Cincinnati, Hamilton & Dayton for 999 years, in March, 1905, for 5 per cent. on the common and 4 per cent. on the preferred of the former, both companies going into the hands of a receiver in December of the same year. The lease was subsequently annulled. It argues a close study of the earnings and financial condition of the company itself, a careful scrutiny of the affairs of the guarantor, and not the mere acceptance of the word "guarantee" as proof of the possession of a gilt-edged investment.

The leased-line stock of the Illinois Central, amounting to $10,000,000, and paying 4 per cent., secured by the deposit of stocks of equal value, compared with $123,552,000 common, may be said, in a sense, to be "guaranteed," though it is not within the definition given above. Similarly, the stocks with provisions for the accumulation of special funds, or surpluses, mentioned before, have something *in the nature* of a guarantee, though they are evidently not "guaranteed."

"Founders' stock" is practically unknown in this country. No instance can be found in the manuals, though it may exist in small corporations. Briefly, it may be said to be stock ranking ahead of preferred, entitled to a certain fixed dividend and then to a certain proportion of the surplus after dividends on all classes have been paid. Assume a corporation with $100,000 6 per cent. founders' stock, $4,900,000 6 per cent. preferred, and $5,000,000 common stock, and a balance for dividends for the year of $1,000,000. The founders' stock would receive $6,000, the preferred $294,000, and the common, say, $250,000. The surplus for the year would then be $450,000. The founders' stock is entitled to a certain proportion of this—fixed by the articles of incorporation—usually one-quarter to one-half. Thus, in addition to its 6 per cent., this class would be paid from $112,500 to $225,000, making an extra dividend of from 112½ to 225 per cent., according to the proportion of the surplus it would receive. If we were to capitalize the last figure at 6 per cent., the stock would be worth about $3800 a share. There are other provisions concerning the method of arriving at the amount to be distributed in dividends, but this is the

most usual. It was formerly common in England, but is now looked upon with disfavor. Such stock is usually given to promoters, or to persons of influence in consideration of their lending the weight of their names to new corporations, and is, naturally, highly valued by its fortunate possessors. Under the laws of New Jersey it is legal to create such stock, but published instances are wanting.

Having described the various classes of preferred stocks and their characteristics, and those analogous to preferred issues, there still remains for discussion the so-called debenture stock. This class of stock may be said to be on the margin between mortgage bond issues and regular stock issues. To the ordinary person a "debenture" signifies a non-mortgage bond. But it is also used to describe a stock. The whole amount secured may be "treated as borrowed capital consolidated into one mass for the sake of convenience," and certificates issued entitling the holder "to a certain sum, part of this mass." It differs from stock in that the company promises, generally in the form of a covenant, to pay interest on specified dates. This interest has priority over dividends on any class of *stock* whatever, whether guaranteed or not. Such issues are common in England and Canada, but rare in the United States, though debenture bonds are well known here. The old Chicago Great Western Railway had such an issue, which, as it should, fared much better in the reorganization than either of the preferred stocks. The Green Bay & Western Railroad has two classes of debentures—class "A," $600,000; class "B," $7,000,000—compared with $2,500,000 of common stock. The Canadian Pacific, also, has a large issue of irredeemable debenture stock—for such stock may be thus issued, or with provisions providing for redemption after a certain date. The Canadian Northern Ontario has debentures to be paid off in 1936, while those of the Canadian Northern Quebec are perpetual.

Throughout this classification nothing has been said of values, the present task being mainly one of exposition, and not of advice. In closing, we express the hope that intending purchasers will look well to the class of stock in which they contemplate investing, examining *all* of the provisions of that particular issue; consulting, if necessary, the articles of incorporation of the company. Only by knowing the provisions of the stock certificate—is it callable or

convertible, participating or not, preferred as to assets, etc., and any other special features that may exist—can an investor be prepared, not only to avoid losses, but to gain safety and profits. A fundamental error in regard to the features of the stock may defeat the results of the most painstaking analysis of value, and when such provisions can usually be so easily ascertained, there is no reason for encountering risks, or allowing profits to escape that might otherwise accrue.